

# Metal Industry Indicators

## Indicators of Domestic Primary Metals, Steel, Aluminum, and Copper Activity

July 2004

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**The primary metals leading index retreated slightly in June, suggesting that the outlook for the overall metals industry may be more moderate than the recent expansion in activity growth. The leading index of metal prices declined for the fifth consecutive month in May, and its growth rate has moved farther into negative territory. Metals price growth may be weak in the near term.**

**The primary aluminum and the aluminum mill products indexes are suspended because of discontinued availability of industry-specific historical data. The USGS will continue to calculate the steel and copper composite indexes.**

The **primary metals leading index** eased down 0.3% in June to 142.9 from a revised 143.3 in May, and its 6-month smoothed growth rate decreased to 7.2% from a revised 9.4%. The 6-month smoothed growth rate is a compound annual rate that measures the near-term trend. Normally, a growth rate above +1.0% signals an upward trend for future growth in metals activity, while a growth rate below –1.0% indicates a downward trend. For an explanation of these indexes and a definition of the primary metals industry, [see page 10](#).

A shorter average workweek in primary metals establishments made the largest negative contribution to the leading index. The Institute for Supply Management's PMI decreased in June, but still is in the range that denotes increased domestic manufacturing activity. The JOC-ECRI metals price index growth rate continued to fall. On a positive note, the combined S&P stock price indexes for construction and farm machinery companies and for industrial machinery companies rebounded in June. It was the only available component to increase, however, its contribution to the leading index was not large enough to offset the negative contributions from the other components. The primary metals leading index will likely be revised next month when the remaining four components become available.

The decline in the leading index growth rate suggests that the rapid expansion in the primary metals industry since last August could begin to slow. Growth in the U.S. and global economies is still ongoing and should be high enough to sustain a moderate demand on the metals industry.

The **steel leading index** increased 1.0% in May, the latest month for which it is available, moving up to 116.5 from a revised 115.3 in April. The index's growth rate rose to its highest point this year, 5.7%, from a revised 4.6% in April. The three largest positive contributions come from a rise in car and light truck sales, a longer average workweek in steel plants, and a higher growth rate of the inflation-adjusted M2 money supply. The relatively high steel leading index growth rate continues to indicate at least moderate activity growth in the domestic steel industry in the months ahead.

The **copper leading index** increased 0.8% in May to 128.8 from a revised 127.8 in April, and its 6-month smoothed growth rate eased slightly to 9.4% from a revised 9.5% in April. A wider yield spread between the 10-year Treasury Note and the federal funds rate had the largest positive impact on the copper leading index. Moreover, the highest index of new housing permits since the mid-1970s helped to buoy the leading index. Although the growth rate slipped slightly, it is still quite high and continues to signal an increase in U.S. copper industry activity. The latest coincident index growth rate shows the copper industry forging ahead.

### Further Declines in the Metals Price Leading Index Signaling Weak Metals Price Growth

The **metals price leading index** fell 0.6% in May, the latest month for which it is available, declining to 111.7 from a re-

vised 112.4 in April, and its 6-month smoothed growth rate dropped to -3.1% from a revised -1.7% in April. Although the leading index declined in May, only one of its three available leading index components decreased, the growth rate of the index measuring the trade-weighted average exchange value of other major currencies against the U.S. dollar. It registered a -1.2-percentage-point contribution. The wider yield spread between the U.S. 10-year Treasury Note and the federal funds rate made a contribution of 0.7 percentage point. The growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products made a 0.1-percentage-point contribution to the leading index. The fourth index component, the growth rate of the Economic Cycle Research Institute's (ECRI) 18-Country Long Leading Index rebounded in April, the latest month for which it is available. This is the first increase of the year for this indicator, suggesting that global economic growth may simply be slowing. The ECRI 18-Country Long Leading Index signals changes in the

growth of economic activity in major industrialized countries about 5 months in advance.

The growth rate of the inflation-adjusted value of inventories of U.S. nonferrous metal products, which is an indicator of metals supply, edged up to -8.0% in May from a revised -8.4% in April. In fact, it has been hovering around -8.0% all year. This indicator tends to move inversely with the price of metals. The slight increase in the nonferrous metal products inventories growth rate and continuous decreases in the metals price leading index growth rates since the beginning of the year are suggesting weak price growth over the next few months.

The business cycle and inventories are only two factors in metals price determination. Other factors that affect prices include changes in metals production, speculation, strategic stockpiling, foreign exchange rates, geopolitical instability, and production costs.

**Table 1.**  
**Leading Index of Metal Prices and Growth Rates of the Nonferrous Metals Price Index, Inventories of Nonferrous Metal Products, and Selected Metal Prices**

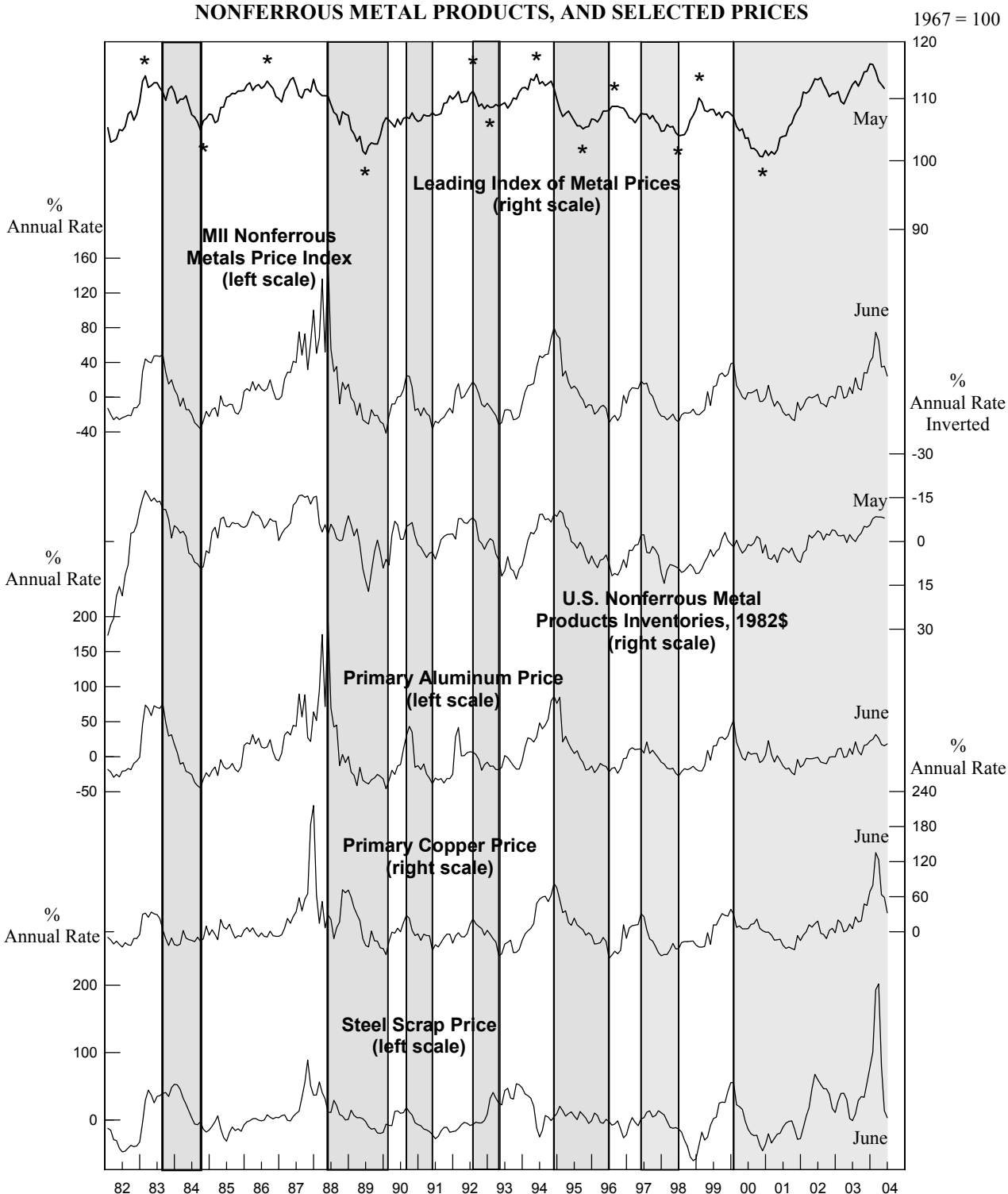
		Six-Month Smoothed Growth Rates				
	Leading Index of Metal Prices (1967=100)	MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
<b>2003</b>						
May	111.4	11.5	-2.4	11.6	13.4	2.3
June	112.4r	4.2	-0.9	3.3	5.6	-0.8
July	113.0	22.4	0.0	21.2	25.2	9.1
August	112.1	10.4	-1.8	7.9	16.8	29.1
September	113.2r	8.2	-2.9	2.5	18.4	34.7
October	114.6r	28.2	-5.2	15.9	47.5	33.8
November	114.7r	27.7	-4.9	17.2	44.8	55.2
December	116.0r	40.4	-5.6	22.2	68.6	77.9
<b>2004</b>						
January	115.9r	46.1	-7.8r	24.7	79.3	100.7
February	114.7	74.8	-8.5r	31.7	135.4	193.5
March	113.0r	64.7	-8.4r	26.3	123.4	201.9
April	112.4r	34.7	-8.4r	17.3	63.4	80.1
May	111.7	35.9	-8.0	15.5	58.8	13.8
June	NA	24.5	NA	18.2	32.4	3.4

NA: Not available    r: Revised

**Note:**    The components of the Leading Index of Metal Prices are the spread between the U.S. 10-year Treasury Note and the federal funds rate, and the 6-month smoothed growth rates of the deflated value of new orders for nonferrous metal products, the Economic Cycle Research Institute's 18-Country Long Leading Index, and the reciprocal of the trade-weighted average exchange value of the U.S. dollar against other major currencies. The Metal Industry Indicators (MII) Nonferrous Metals Price Index measures changes in end-of-the-month prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange (LME). The steel scrap price used is the price of No. 1 heavy melting. Inventories consist of the deflated value of finished goods, work in progress, and raw materials for U.S.-produced nonferrous metal products (NAICS 3313, 3314, & 335929). Six-month smoothed growth rates are based on the ratio of the current month's index or price to its average over the preceding 12 months, expressed at a compound annual rate.

**Sources:**    U.S. Geological Survey (USGS); American Metal Market (AMM); the London Metal Exchange (LME); U.S. Census Bureau; the Economic Cycle Research Institute, Inc. (ECRI); and Federal Reserve Board.

**CHART 1.  
LEADING INDEX OF METAL PRICES AND GROWTH RATES  
OF NONFERROUS METALS PRICE INDEX, INVENTORIES OF  
NONFERROUS METAL PRODUCTS, AND SELECTED PRICES**



Shaded areas are downturns in the nonferrous metals price index growth rate. Asterisks (\*) are peaks and troughs in the economic activity reflected by the leading index of metal prices. Scale for nonferrous metal products inventories is inverted.

**Table 2.**  
**The Primary Metals Industry Indexes and Growth Rates**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2003</b>				
July	131.9	4.6	95.0	-5.3
August	134.3	7.6	94.7	-5.3
September	133.3	5.3	95.1	-3.8
October	135.3	7.5	95.6	-2.3
November	136.7	8.6	96.5	0.1
December	138.3	10.0r	97.5	2.4
<b>2004</b>				
January	139.4r	10.3	97.6r	2.6r
February	141.4r	12.2r	98.1r	3.7r
March	143.4r	13.4r	99.2	5.9r
April	143.1r	11.0r	98.4r	4.0r
May	143.3r	9.4r	98.7	4.2
June	142.9	7.2	NA	NA

**NA:** Not available    **r:** Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 3.**  
**The Contribution of Each Primary Metals Index Component to the Percent Change in the Index from the Previous Month**

<b>Leading Index</b>	<b>May</b>	<b>June</b>
1. Average weekly hours, primary metals (NAICS 331)	0.5r	-0.5
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)	-0.4r	0.7
3. Ratio of price to unit labor cost (NAICS 331)	0.4	NA
4. JOC-ECRI metals price index growth rate	-1.0r	-0.2
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	0.0	NA
6. Index of new private housing units authorized by permit	0.2	NA
7. Growth rate of U.S. M2 money supply, 2000\$	0.3	NA
8. PMI	0.0	-0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.0r	-0.4
<b>Coincident Index</b>	<b>April</b>	<b>May</b>
1. Industrial production index, primary metals (NAICS 331)	-0.2r	0.2
2. Total employee hours, primary metals (NAICS 331)	0.0r	0.5
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	-0.7r	-0.5
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.8r	0.3

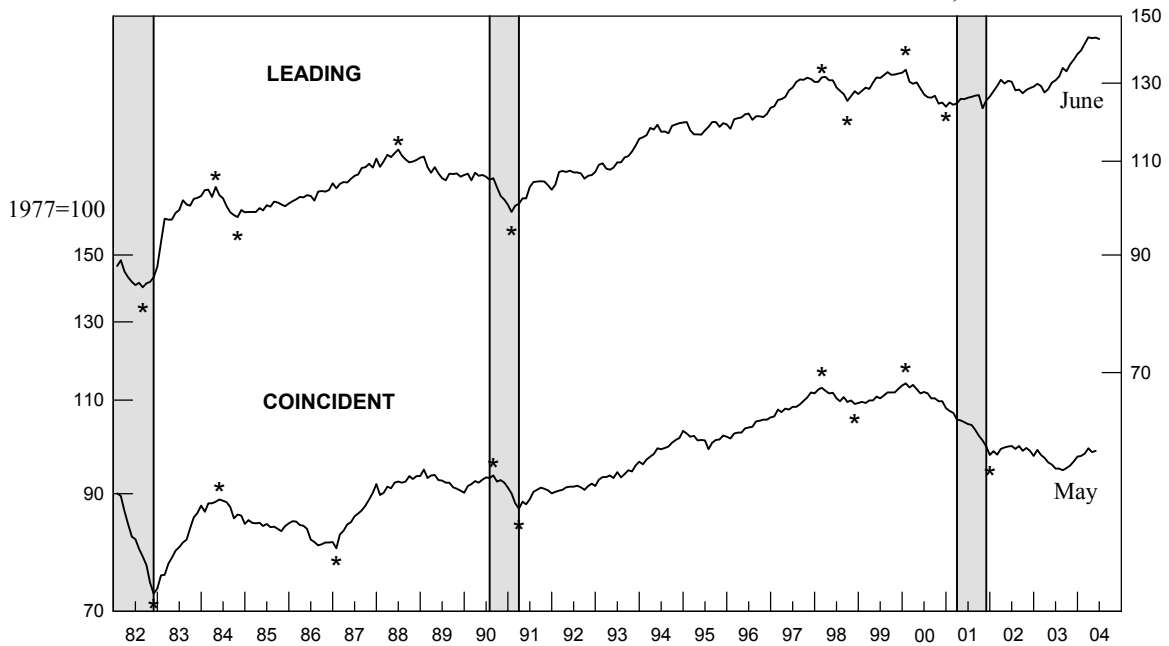
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and Economic Cycle Research Institute, Inc.; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 8, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 4 of the leading index.

**NA:** Not available    **r:** Revised

**Note:** A component's contribution, shown in Tables 3, 5, 7, and 9, measures its effect, in percentage points, on the percent change in the index. Each month, the sum of the contributions plus the trend adjustment equals (except for rounding differences) the index's percent change from the previous month.

**CHART 2.**

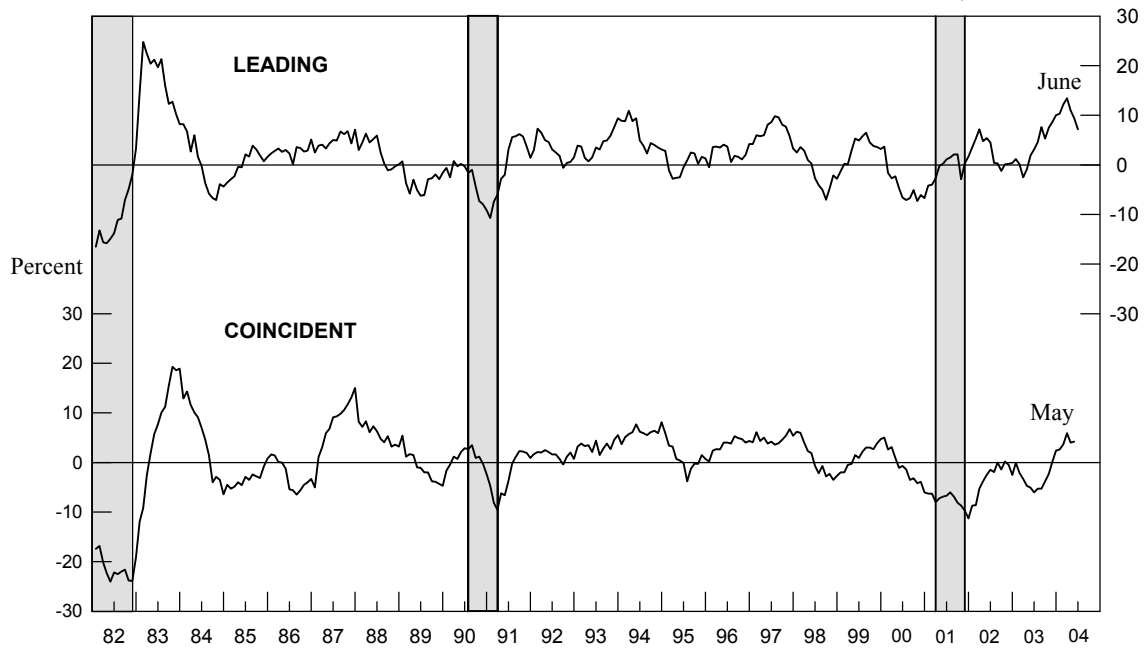
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1982-2004** 1977=100



Shaded areas are business cycle recessions. Asterisks (\*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

**CHART 3.**

**PRIMARY METALS: LEADING AND COINCIDENT GROWTH RATES, 1982-2004** Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

**Table 4.**  
**The Steel Industry Indexes and Growth Rates**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2003</b>				
June	111.0	1.3	91.0	-6.3
July	111.3	1.9	90.7	-6.4
August	112.9	4.6	90.1	-7.1
September	111.9	2.7	91.0	-4.4
October	112.2	2.8	90.9	-4.0
November	113.8	5.2	91.5	-2.1
December	114.9r	6.5r	93.4	2.3
<b>2004</b>				
January	113.7	4.1	93.2r	2.1r
February	113.5	3.3r	92.2	0.4
March	114.7	4.6	92.6r	1.4r
April	115.3r	4.6r	92.4r	1.2r
May	116.5	5.7	93.1	2.6

r: Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

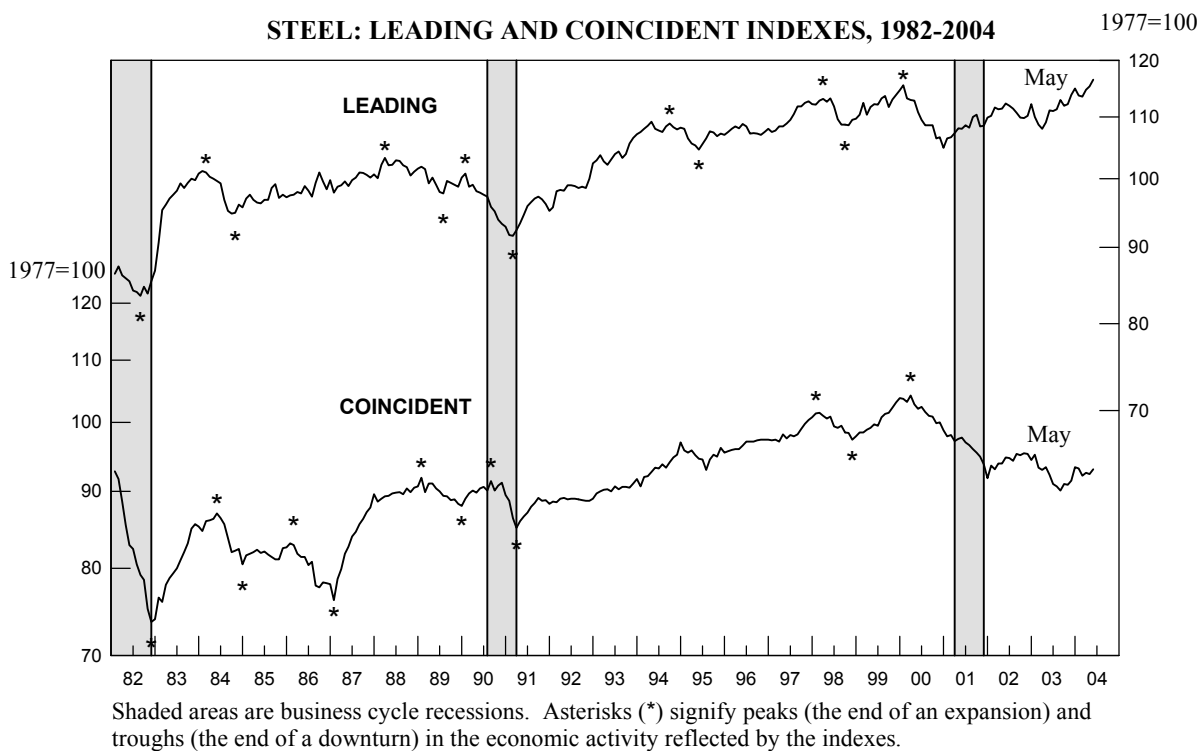
**Table 5.**  
**The Contribution of Each Steel Index Component to the Percent Change in the Index from the Previous Month**

<b>Leading Index</b>	<b>April</b>	<b>May</b>
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.1	0.3
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.2r	0.2
3. Shipments of household appliances, 1982\$	0.0	0.2
4. S&P stock price index, steel companies	0.1	-0.6
5. Retail sales of U.S. passenger cars and light trucks (units)	-0.1	0.4
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.0r	0.0
7. Index of new private housing units authorized by permit	0.1	0.2
8. Growth rate of U.S. M2 money supply, 2000\$	0.3	0.3
9. PMI	0.0	0.0
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.3r	1.0
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.4r	0.1
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.0r	0.3
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.1	0.2
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.2r	0.7

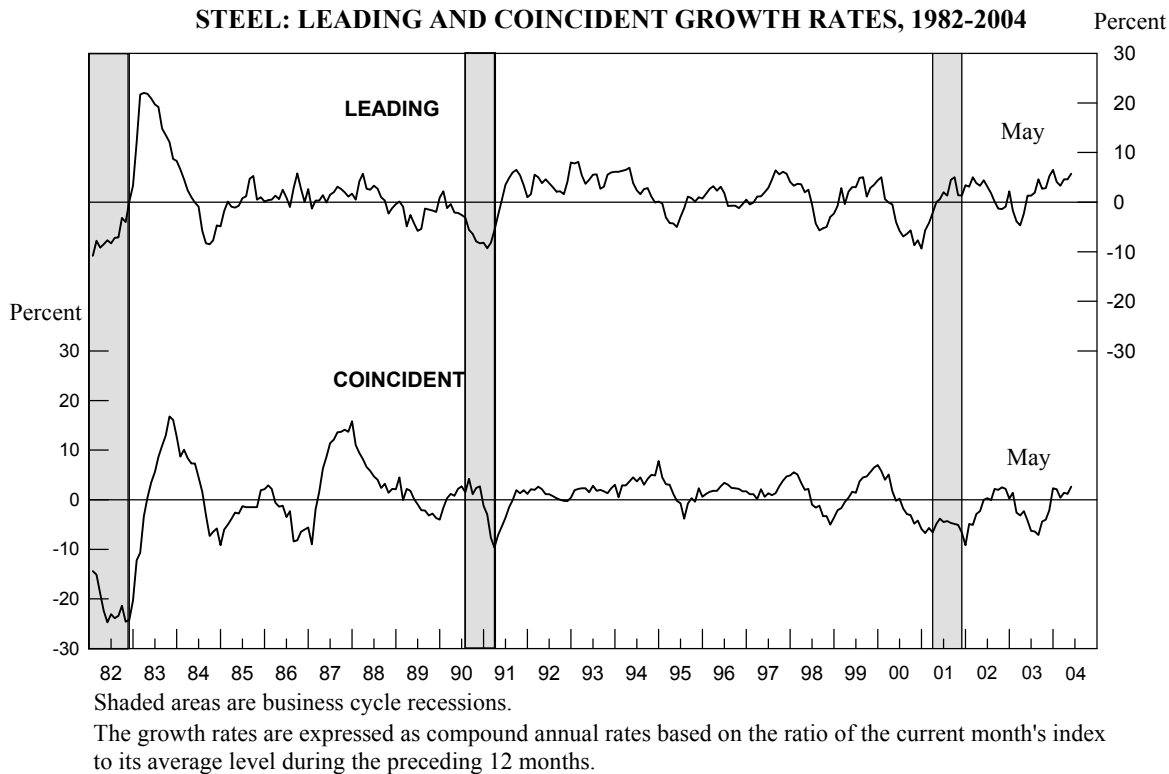
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey; 4, Standard & Poor's; 5, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 6, Journal of Commerce and U.S. Geological Survey; 7, U.S. Census Bureau and U.S. Geological Survey; 8, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 9, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 4 and 6 of the leading index.

r: Revised

**CHART 4.**  
**STEEL: LEADING AND COINCIDENT INDEXES, 1982-2004**



**CHART 5.**  
**STEEL: LEADING AND COINCIDENT GROWTH RATES, 1982-2004**



**Table 6.**  
**The Copper Industry Indexes and Growth Rates**

	<b>Leading Index</b>		<b>Coincident Index</b>	
	<b>(1977 = 100)</b>	<b>Growth Rate</b>	<b>(1977 = 100)</b>	<b>Growth Rate</b>
<b>2003</b>				
June	117.9	1.0	107.1	-2.4
July	119.8	4.4	108.7	0.9
August	120.0	4.6	107.3	-1.4
September	120.5	5.1	107.5	-0.6
October	122.4	7.7	106.2	-2.6
November	122.9	7.6	106.5	-1.8
December	124.6	9.6	107.8	0.9
<b>2004</b>				
January	124.8r	8.9r	106.9	-0.6
February	126.5	10.5	106.9r	-0.2r
March	128.1	11.7	107.2r	0.5r
April	127.8r	9.5r	108.3r	2.4r
May	128.8	9.4	109.7	4.3

r: Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 7.**  
**The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month**

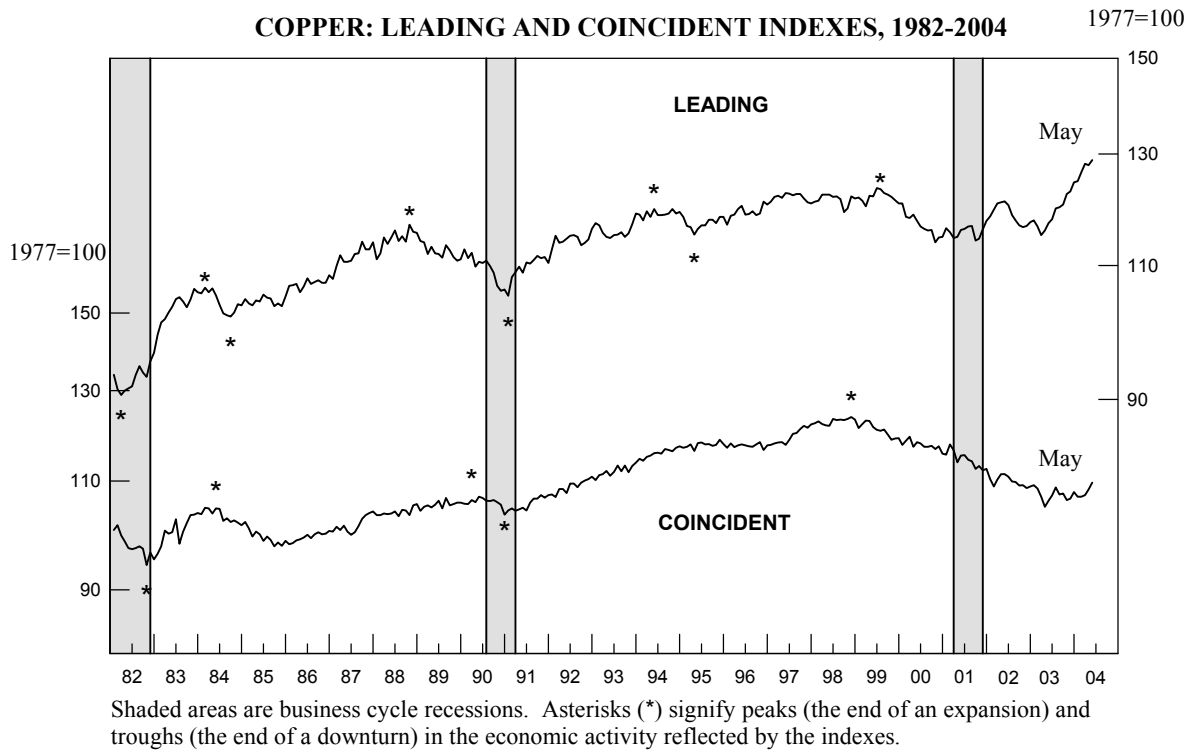
<b>Leading Index</b>	<b>April</b>	<b>May</b>
1. Average weekly overtime hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.5	0.1
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.5r	0.1
3. S&P stock price index, building products companies	-0.1	-0.2
4. LME spot price of primary copper	-0.6	0.2
5. Index of new private housing units authorized by permit	0.1	0.3
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.4	0.3
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.2r	0.7
<b>Coincident Index</b>		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.5r	0.2
2. Total employee hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.5	1.0
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	1.1r	1.3

**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; 3, American Bureau of Metal Statistics, Inc. and U.S. Geological Survey. All series are seasonally adjusted, except 3, 4, and 6 of the leading index.

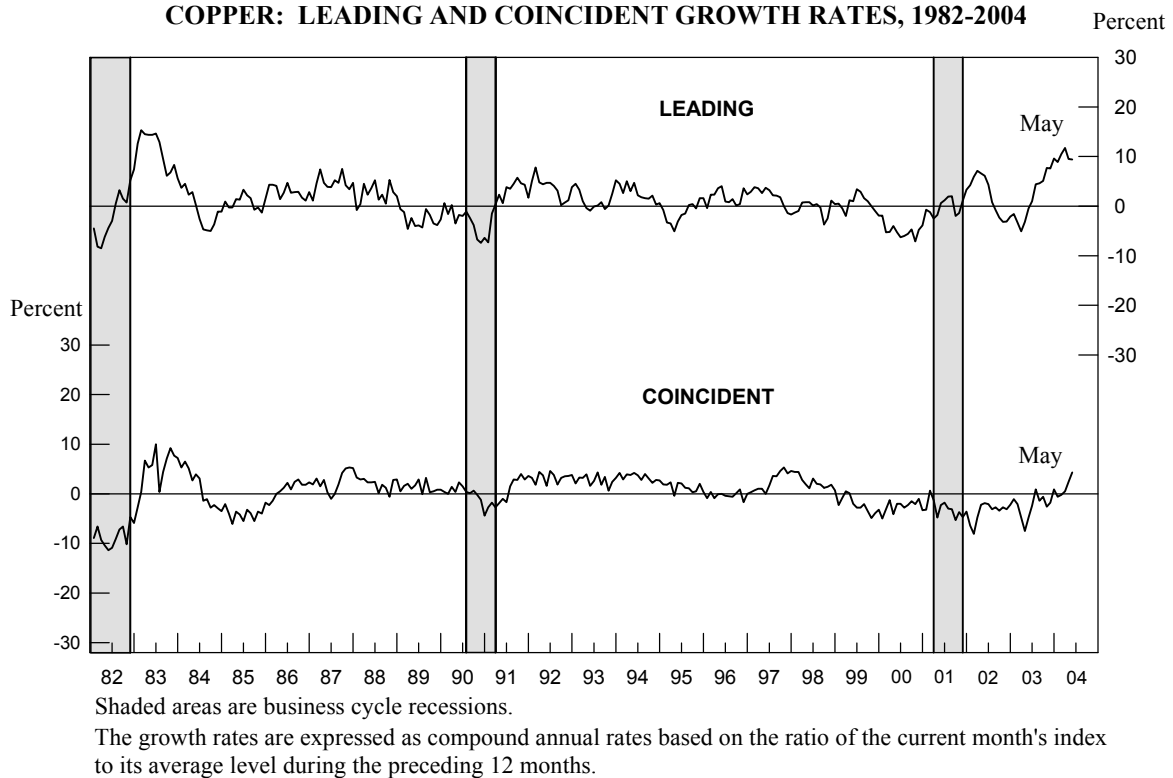
r: Revised      NA: Not available



**CHART 6.**  
**COPPER: LEADING AND COINCIDENT INDEXES, 1982-2004**



**CHART 7.**  
**COPPER: LEADING AND COINCIDENT GROWTH RATES, 1982-2004**



## Explanation

Each month, the U.S. Geological Survey tracks the effects of the business cycle on five U.S. metal industries by calculating and publishing composite indexes of leading and coincident indicators. Wesley Mitchell and Arthur Burns originated the cyclical-indicators approach for the economy as a whole at the National Bureau of Economic Research in the mid-1930s. Over subsequent decades this approach was developed and refined, mostly at the National Bureau, under the leadership of Geoffrey H. Moore.<sup>1</sup>

A business cycle can briefly be described as growth in the level of economic activity followed by a decline succeeded by further growth. These alternating periods of growth and decline do not occur at regular intervals. Composite indexes, however, can help determine when highs and lows in the cycle might occur. A composite index combines cyclical indicators of diverse economic activity into one index, giving decision makers and economists a single measure of how changes in the business cycle are affecting economic activity.

The indicators in the metal industry leading indexes historically give signals several months in advance of major changes in a coincident index, a measure of current metal industry activity. Indicators that make up the leading indexes are, for the most part, measures of anticipations or new commitments to various economic activities that can affect the metal industries in the months ahead.

Composite coincident indexes for the metal industries consist of indicators for production, shipments, and total employee hours worked. As such, the coincident indexes can be regarded as measures of the economic health of the metal industries.

The metal industry coincident indexes reflect industry activity classified by the U.S. Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS). Of the five metal industries, primary metals (NAICS 331) is the broadest, containing 25 different metal processing industries. Steel, aluminum, and copper are specific industries within the primary metals group.

The SIC was the main vehicle used by the U.S. Government and others in reporting industry economic statistics throughout most of the last century. Starting with the 1997 U.S. Economic Census, the U.S. Government began using the NAICS, which classifies economic data for industries in Canada, Mexico, and the United States. In general, metal industry indexes starting in 1997 begin to reflect the NAICS classification, while indexes for earlier years follow the SIC. Hence, composite indexes from 1997 forward are not entirely consistent with those of earlier years.

The largest change to primary metals because of the NAICS deals with other communication and energy wire manufacturing (NAICS 335929). Under NAICS, this manufacturing has been removed from primary metals and added to electrical equipment, appliance, and component manufacturing. Because monthly shipments and new orders for this wire are not available, the USGS is estimating their values from 1997 onward and adding them to the appropriate metal industry indicators and indexes to maintain consistency.

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<sup>1</sup>**Business Cycle Indicators, A monthly report from The Conference Board** (March 1996).

There are other small changes to the primary metals industry because of the switch to the NAICS. Coke oven activity not done by steel mills, for example, is removed and alumina refining, a part of industrial inorganic chemical manufacturing under the SIC, is added. Since the historic trends of the composite indexes are not affected by these small changes, the USGS is not making specific adjustments to the indexes for them for the periods before and after 1997.

The metal industry leading indexes turn before their respective coincident indexes an average of 8 months for primary metals and 7 months for steel and copper. The average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

The leading index of metal prices, also published in the *Metal Industry Indicators*, is designed to signal changes in a composite index of prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange. On average, this leading index indicates significant changes in price growth about 8 months in advance.

The growth rate used in the *Metal Industry Indicators* is a 6-month smoothed growth rate at a compound annual rate, calculated from a moving average. Moving averages smooth fluctuations in data over time so that trends can be observed. The 6-month smoothed growth rate is based upon the ratio of the latest monthly value to the preceding 12-month moving average.

$$\left[ \left( \frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

Because the interval between midpoints of the current month and the preceding 12 months is 6.5 months, the ratio is raised to the 12/6.5 power to derive a compound annual rate.

The growth rates measure the near-term industry trends. They, along with other information about the metal industries and the world economy, are the main tools used to determine the outlook of the industries. A 6-month smoothed growth rate above +1.0% usually means increasing growth; a rate below -1.0% usually means declining growth.

**The next summary is scheduled for release on the World Wide Web at 10:00 a.m. EDT, Friday, August 20. The address for *Metal Industry Indicators* on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>**

The *Metal Industry Indicators* is produced at the U.S. Geological Survey by the Minerals Information Team. The report is prepared by Kenneth Beckman (703-648-4916; e-mail: [kbeckman@usgs.gov](mailto:kbeckman@usgs.gov)), and Gail James (703-648-4915; e-mail: [gjames@usgs.gov](mailto:gjames@usgs.gov)). The former Center for International Business Cycle Research, under the direction of Dr. Geoffrey H. Moore, and the former U.S. Bureau of Mines developed the metal industry leading and coincident indexes in the early 1990s. Customers can send mail concerning the *Metal Industry Indicators* to the following address:

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